

## Message Text

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PAGE 01 PANAMA 00885 01 OF 03 061705Z

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ACTION ARA-06

INFO OCT-01 ISO-00 SS-14 SP-02 L-01 SAB-01 INR-05 H-01

EB-03 /034 W

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R 061500Z FEB 76

FM AMEMBASSY PANAMA

TO SECSTATE WASHDC 6638

LIMITED OFFICIAL USE SECTION 1 OF 3 PANAMA 0885

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FOR ARA/PAN-MINISTER BELL

E.O. 11652: N/A

TAGS: PFOR, PN

SUBJECT: CONGRESSIONAL Q&A'S ON PANAMA: V GOVERNMENT CONTROL OF  
THE ECONOMY

1. Q. IS THE PANAMANIAN GOVERNMENT, BY DESIGN, ATTEMPTING  
TO EXTEND STATE CONTROL OVER THE PRIVATE ENTERPRISE SECTOR?

A. TRADITIONALLY, PRIOR TO 1968, THE PANAMANIAN GOVERN-  
MENT DID NOT PLAY A MAJOR DIRECT ROLE IN THE ECONOMIC DEVELOP-  
MENT OF THE COUNTRY, OR IN THE FUNCTIONING OF THE NATIONAL  
ECONOMY.

AS PART OF ITS OVERALL ECONOMIC DEVELOPMENT STRATEGY,  
THE TORRIJOS GOVERNMENT BELIEVES THE PUBLIC SECTOR SHOULD PLAY  
AN ACTIVE ROLE IN THE DEVELOPMENT OF THE COUNTRY THROUGH THE  
MECHANISM OF PUBLIC INVESTMENT. THIS IS NOT CONFINED STRICTLY  
TO THOSE INFRASTRUCTURE INVESTMENTS NORMALLY EXECUTED BY  
GOVERNMENTS, BUT ALSO INCLUDES GOVERNMENT INVESTMENT,  
DIRECT OR INDIRECT, IN THOSE SECTORS WHICH IT CONSIDERS  
HAVE BEEN NEGLECTED, OR VIEWED AS ONLY marginally PROFITABLE,  
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PAGE 02 PANAMA 00885 01 OF 03 061705Z

BY PRIVATE ENTERPRISE, OR IN WHICH ONE OR TWO FAMILIES OR

FIRMS EXERCISED DOMINANT CONTROL PREJUDICIAL TO THE OVERALL INTEREST. TO DATE, SUCH GOVERNMENT PARTICIPATION IN THE NATIONAL ECONOMY HAS TAKEN PLACE IN AREAS SUCH AS AGRICULTURAL MARKETING (INCLUDING STORAGE AND DISTRIBUTION), SUGAR PRODUCTION AND TOURISM. A STATE-OWNED PLANT FOR THE PRODUCTION OF CEMENT IS ALSO NOW UNDER CONSTRUCTION. IN THE PARTICULAR FIELD OF NATURAL RESOURCES DEVELOPMENT, PANAMA HAS ACTED IN ACCORDANCE WITH AN EMERGING PATTERN IN THE DEVELOPING WORLD BY ASSUMING INCREASED PARTICIPATION IN AGRICULTURAL (E.G. BANANAS) OR EXTRACTIVE (E.G. COPPER) INDUSTRIES ENGAGED IN THE EXPLOITATION OF THE COUNTRY'S NATURAL RESOURCES.

IN OVERALL MANAGEMENT OF ECONOMIC AFFAIRS, THE GOVERNMENT HAS SOUGHT TO GAIN A GREATER DEGREE OF CONTROL OVER ITS DOMESTIC ECONOMY AS A WHOLE, AND SEEKS ALSO TO PLAY A CENTRAL ROLE IN THE PLANNING AND DIRECTION OF ECONOMIC ACTIVITIES RELATED TO THE DEVELOPMENT OF THE COUNTRY. THE PHENOMENON OF GROWING STATE ECONOMIC PARTICIPATION AND OVERSIGHT IS A GENERAL CHARACTERISTIC IN TODAY'S WORLD, EVEN IN COUNTRIES WITH A FULLY-DEVELOPED CAPITALISTIC MARKET-ECONOMY STRUCTURE. INCREASINGLY, GOVERNMENTS OF ALL COUNTRIES ARE BEING HELD RESPONSIBLE BY THEIR PEOPLE FOR DEALING WITH ECONOMIC PROBLEMS, AND GOVERNMENTS ARE GENERALLLY SEEKING A CORRESPONDING AMOUNT OF AUTHORITY IN ORDER TO ACT EFFECTIVELY IN THESE AREAS. PANAMA IS NO EXCEPTION TO THIS PATTERN.

IN SUMMARY, PANAMA CLEARLY WISHES TO OPT FOR A MIXED ECONOMY WITH SUBSTANTIAL STATE PARTICIPATION, AND TO OBTAIN GREATER GOVERNMENTAL CONTROL OVER THE MANAGEMENT OF ITS TOTAL NATIONAL ECONOMY. THE EMBASSY, HOWEVER, HAS OBSERVED NOTHING TO INDICATE THAT THE TORRIJOS GOVERNMENT INTENDS, NOW OR IN THE FORESEEABLE FUTURE, TO MOVE BEYOND THIS IN THE DIRECTION OF CONSCIOUSLY SEEKING TO PRE-EMP THE PRIVATE SECTOR IN FAVOR OF STATIST ECONOMIC ACTIVITY, OR TO MOVE BY EXPROPRIATION OR SOME OTHER FORM OF CONFISCATION TOWARD A MORE PURELY SOCIALIST ECONOMY.

2. Q. HOW DOES THE GOVERNMENT'S POLICY AFFECT PRIVATE FOREIGN INVESTMENT?  
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PAGE 03 PANAMA 00885 01 OF 03 061705Z

A. ALTHOUGH PANAMA HAS SOUGHT TO IMPLEMENT A GREATER DEGREE OF CONTROL OVER ITS DOMESTIC ECONOMY AND DEVELOPMENT POLICY, IT HAS CONCURRENTLY ACTIVELY ENCOURAGED PRIVATE FOREIGN INVESTMENT BY SEEKING TO PRESENT A FAVORABLE INVESTMENT CLIMATE AND CONDITIONS OF OPERATION FOR FOREIGN ENTERPRISES, PARTICULARLY THOSE DESIRING NOT ONLY TO DO BUSINESS IN PANAMA BUT TO USE THE COUNTRY AS A BASE FOR ADDITIONAL

SUBSTANTIAL OFFSHORE OPERATIONS. THE MOST STRIKING RESULT OF THIS POLICY HAS BEEN THE TREMENDOUS GROWTH OVER THE PAST SEVERAL YEARS OF PANAMA AS AN INTERNATIONAL BANKING CENTER, TO A POSITION WHICH IS UNRIVALED IN LATIN AMERICA TODAY. WE SEE NO SIGNS THAT POLICY-MAKERS IN PANAMA ARE ABOUT TO DO ANYTHING TO DISRUPT THIS--RATHER, THEY FULLY REALIZE THAT PANAMA'S REAL ECONOMIC FUTURE IS BASED TO A SIGNIFICANT EXTENT IN ITS ROLE AS A COMMERCIAL AND FINANCIAL CENTER AND THUS CAN BE EXPECTED TO DO AS MUCH AS POSSIBLE TO AFFIRMATIVELY SUSTAIN IT.

3. Q. WE UNDERSTAND THAT PANAMA'S PREVIOUSLY SPECTUACULAR ECONOMIC GROWTH HAS DROPPED TO VIRTUALLY NOTHING, AND THAT THE COUNTRY IS AFFLICTED BY INCREASING UNEMPLOYMENT AND ECONOMIC PROBLEMS. DOES THIS NOT INDICATE THAT THE TORRIJOS GOVERNMENT IS MISMANAGING THE ECONOMY AND DISRUPTING PRODUCTIVE PRIVATE ENTERPRISE?

A. WE DO NOT BELIEVE THIS IS THE CASE. EVERYONE IS AWARE THAT ECONOMIC PROBLEMS AND RECESSION TODAY ARE WORLD-WIDE, NOT LOCAL. THE WORLDWIDE ECONOMIC SLOWDOWN THAT BEGAN 1972-73 WAS BOUND TO AFFECT PANAMA AND ITS OPEN ECONOMY SOONER OR LATER. IT DID, AND THE FACT THAT 1975 WAS A RELATIVELY BAD YEAR FOR THE PANAMANIAN ECONOMY SHOULD COME AS NO PARTICULAR SURPRISE TO ANYONE. THE WORLD WIDE ECONOMY NOW APPEARS TO BE RECOVERING FROM ITS RECESSION, AS IS THE US ECONOMY--WITH WHICH PANAMA'S CLOSELY LINKED. THE PANAMANIAN GOVERNMENT CONSIDERS THAT ITS DOMESTIC ECONOMY IS LIKELY TO IMPROVE DURING 1976, PERHAPS AFTER CONTINUED PROBLEMS DURING THE FIRST QUARTER OR TWO OF THE YEAR. THE EMBASSY CONSIDERS THAT, BARRING UNFORSEEN CIRCUMSTANCES, THERE IS A GOOD LIKELIHOOD THAT THIS PROJECTION WILL BE BORNE OUT IN FACT.  
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PAGE 04 PANAMA 00885 01 OF 03 061705Z

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PAGE 01 PANAMA 00885 02 OF 03 061646Z

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ACTION ARA-06

INFO OCT-01 ISO-00 SS-14 SP-02 L-01 SAB-01 INR-05 H-01

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4. Q. BUT WHAT ABOUT BUSINESS CONFIDENCE? THIS IS CRUCIAL TO ANY ECONOMIC RECOVERY--HAS IT NOT BEEN SUBSTANTIALLY DISRUPTED BY LACK OF SYMPATHY BY THE PANAMANIAN GOVERNMENT TOWARD THE NEEDS OF THE PRIVATE SECTOR, AND BY REPRESSIVE MEASURES APPLIED TO ITS LEADERS?

A. BUSINESS CONFIDENCE IS A VERY SUBJECTIVE THING. IT REVOLVES BASICALLY AROUND THE EXPECTATION OF A POTENTIAL INVESTOR AS TO THE SAFETY AND PROFITABILITY OF A GIVEN USE OF HIS MONEY. ONE OF THE GENERAL PROBLEMS IN A RECESSION IN ANY COUNTRY IS THE DIMINUTION OF BUSINESS OPTIMISM AND CONFIDENCE, AND, THEREFORE, OF INVESTMENT WHICH MIGHT HELP TO ALLEVIATE THE RECESSION, BECAUSE OF THE UNCERTAINTIES OF THE ECONOMIC FUTURE. PANAMA HAS NOT BEEN IMMUNE TO THIS PHENOMENON OVER THE PAST YEAR OR MORE. SINCE ABOUT THE MIDDLE OF 1975, THE PANAMANIAN GOVERNMENT HAS TAKEN A SERIES OF MEASURES DESIGNED TO RESTORE BUSINESS CONFIDENCE AND TAKE ACCOUNT OF THE NEEDS AND DESIRES OF THE PRIVATE SECTOR. IT HAS MADE A VISIBLE, HIGH-LEVEL EFFORT TO ENGAGE THE PRIVATE SECTOR IN CONSULTATIONS ON PENDING ECONOMIC DECISIONS. IT HAS SOUGHT TO MODIFY ITS STANCE IN RESPONSE TO SOME OF THE MORE SERIOUS OBJECTIONS RAISED BY THE PRIVATE SECTOR TOWARD ITS LABOR LAWS AND POLICIES. IT HAS CREATED A GOVERNMENT LIMITED OFFICIAL USE

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PAGE 02 PANAMA 00885 02 OF 03 061646Z

CORPORATION WHOSE PURPOSE WILL BE TO PUMP ADDITIONAL CAPITAL INVESTMENT INTO THE PRIVATE SECTOR AS A SUPPLEMENT TO AVAILABLE PRIVATE SOURCES OF FINANCING.

BUSINESS CONFIDENCE HAS UNDOUBTEDLY SUFFERED, AND MUCH OF THE EFFECT OF THESE RECENT MEASURES HAS BEEN LOST, AS A CONSEQUENCE OF THE EVENTS OF THE PAST FEW WEEKS. THE GOVERNMENT OF PANAMA IS AWARE OF THIS. WHETHER THIS LOSS WILL BE TEMPORARY OR PERMANENT WILL DEPEND IN LARGE PART ON WHAT

THE GOVERNMENT CHOOSES TO DO WITH REGARD TO PRIVATE SECTOR CONCERNS OVER THE NEXT FEW MONTHS, AND HOW THIS IS RECEIVED BY PRIVATE SECTOR INVESTORS. THERE IS NO EVIDENCE OF A MOVEMENT OF PRIVATE ENTERPRISE, FOREIGN OR DOMESTIC, ESPECIALLY THE BANKS, AWAY FROM PANAMA, AND BUSINESS CONFIDENCE CAN BE RESTORED IF THE GOVERNMENT OF PANAMA MAKES THE EFFORT NEEDED TO ACCOMPLISH THIS.

5. Q. WE UNDERSTAND THAT THE PANAMANIAN ECONOMY HAS BEEN SUSTAINED LARGELY THROUGH CONCESSIONAL LOANS FROM THE US GOVERNMENT. DO WE INTEND TO CONTINUE SUPPORTING THE TORRIJOS REGIME IN THIS WAY?

A. PANAMA HAS BEEN A HEAVY BORROWER INTERNATIONALLY TO FINANCE ITS AMBITIOUS ECONOMIC DEVELOPMENT PROGRAMS. HOWEVER, THE US GOVERNMENT, THROUGH THE AGENCY FOR INTERNATIONAL DEVELOPMENT, HAS BEEN ONLY ONE SOURCE--AND NOT THE MAJOR SOURCE--OF SUCH FOREIGN LOANS. PANAMA HAS ALSO RECEIVED SUBSTANTIAL LOANS FOR INFRASTRUCTURE AND ECONOMIC DEVELOPMENT FROM THE VARIOUS INTERNATIONAL LENDING AGENCIES. IT HAS RECEIVED AND CONTINUES TO RECEIVE SUBSTANTIAL LOANS FROM PRIVATE FOREIGN BANKS. THE LATTER, ESPECIALLY, ARE NOT LENDING MONEY TO PANAMA FOR REASONS OF CHARITY, OR AT THE BEHEST OF THE US GOVERNMENT. THEY ARE LENDING MONEY--AT COMMERCIAL, NOT CONCESSIONAL INTEREST RATES--IN THE EXPECTATION THAT PANAMA WILL REPAY THE LOANS, PLUS INTEREST, AT A PROFIT TO THE LENDING INSTITUTION. PANAMA'S PAYMENT RECORD ON ITS OVER HALF A BILLION DOLLARS IN FOREIGN DEBT HAS BEEN EXCELLENT, AND THE GOVERNMENT'S LEADERS HAVE INDICATED THAT THEY INTEND TO MAINTAIN THIS RECORD. TO OUR MINDS, THE FACT THAT FOREIGN PRIVATE INVESTORS FIND PANAMA AN ATTRACTIVE CUSTOMER FOR CREDIT, AND THAT THEY ARE WILLING

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PAGE 03 PANAMA 00885 02 OF 03 061646Z

TO CONTINUE PROVIDING SUCH CREDIT, IS AN IMPORTANT TESTIMONIAL TO THEIR ASSESSMENT THAT PANAMA'S ECONOMY IS BASICALLY SOUND AND THAT THEIR INVESTMENTS ARE SAFE.

6. Q. WE UNDERSTAND THAT ONE PARTICULAR COMPLAINT MADE AGAINST THE TORRIJOS GOVERNMENT IN RECENT WEEKS IS THAT IT IS CONSCIOUSLY SEEKING TO DRIVE INDEPENDENT AGRICULTURALISTS, PARTICULARLY RICE FARMERS, OUT OF BUSINESS IN FAVOR OF GOVERNMENT-SPONSORED COLLECTIVE FARMS. WE ALSO UNDERSTAND THAT TO THIS END, THE GOVERNMENT HAS ESTABLISHED A MONOPOLY IN MARKETING OF AGRICULTURAL PRODUCTS THROUGH A GOVERNMENT AGENCY. WOULD YOU PLEASE COMMENT ON THIS?

A. THE GOVERNMENT OF PANAMA HAS LONG HAD A FARM PRICE SUPPORT SYSTEM WHICH IN RECENT YEARS HAS BEEN ADMINISTERED BY A GOVERNMENTAL MARKETING AGENCY CALLED MERCADEO; THIS

AGENCY WAS RECENTLY CHANGED FROM A COMPONENT PART OF THE  
MINISTRY OF AGRICULTURAL DEVELOPMENT TO AN AUTONOMOUS  
AGENCY RESPONSIBLE TO THE MINISTER.

AS YOU GENTLEMEN WELL KNOW, A MAJOR PROBLEM IN MOST  
DEVELOPING COUNTRIES, ONE AT LEAST EQUAL TO THAT OF ACHIEVING  
INCREASED AGRICULTURAL PRODUCTION, IS THAT OF PRESERVATION,  
STORAGE, DISTRIBUTION AND MARKETING OF AGRICULTURAL PRODUCTS.  
PANAMA HAS BEEN QUITE TYPICAL IN THIS RESPECT. A FEW LARGE  
COMMERCIAL AGRICULTURAL PRODUCERS WERE VERTICALLY INTEGRATED  
WITH COMMERCIAL PROCESSORS AND DISTRIBUTORS. THERE WAS NO  
EFFECTIVE MARKETING SYSTEM REACHING THE SMALL FARMER.

IN ADDITION TO WORKING WITH AGRICULTURAL COOPERATIVES  
THROUGH AN \$8.1 MILLION LOAN, THE US AGENCY FOR INTERNATIONAL  
DEVELOPMENT PROVIDED ANOTHER \$6.2 MILLION LOAN IN SUPPORT OF  
MERCADERO AS ANOTHER MEANS OF PROMOTING THE RATIONALIZATION  
OF THE DOMESTIC SYSTEM FOR DISTRIBUTION AND MARKETING OF  
THE AGRICULTURAL PRODUCTS OF SMALL FARMERS. IMPLEMENTATION  
OF THE LATTER LOAN IS JUST GETTING UNDERWAY, AND OUR TWO  
GOVERNMENTS ARE REVIEWING THE TECHNICAL AND PROCEDURAL  
MEASURES REQUIRED TO IMPROVE THE EFFICIENCY, EFFECTIVENESS  
AND ECONOMY OF MERCADERO.

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PAGE 01 PANAMA 00885 03 OF 03 061653Z

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ACTION ARA-06

INFO OCT-01 ISO-00 SS-14 SP-02 L-01 SAB-01 INR-05 H-01

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LIMITED OFFICIAL USE SECTION 3 OF 3 PANAMA 0885

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PRICES FOR STAPLE AGRICULTURAL

PRODUCTS IN PANAMA ARE GOVERNMENT-CONTROLLED, AND THE GOVERNMENT HAS SOUGHT TO KEEP THEM AT A RELATIVELY MODERATE LEVEL TO AMELIORATE THE EFFECTS OF WORLDWIDE INFLATION ON THE COST OF LIVING FOR POORER FAMILIES IN PANAMA'S URBAN AREAS. THIS HAS INEVITABLY CAUSED A CERTAIN AMOUNT OF FRICTION WITH PRODUCERS--SUCH PRICE CONTROLS IMPLY A CONSTANT PROCESS OF POLITICAL BALANCING AND ADJUSTMENT BETWEEN THE INTERESTS OF PRODUCERS AND CONSUMERS.

DURING RECENT WEEKS, RICE FARMERS HAVE LEVELLED PARTICULARLY VEHEMENT COMPLAINTS REGARDING WHAT THEY ARGUE IS A SET OF GOVERNMENT POLICIES DESIGNED TO FORCE THEM OUT OF BUSINESS. THE GOVERNMENT HAS, IN FACT, ACTIVELY ENCOURAGED AND SUPPORTED THE ESTABLISHMENT OF ORGANIZED PEASANT SETTLEMENTS AS A MEANS OF EXTENDING GOVERNMENTAL SERVICES TO CLASSES WHICH PREVIOUSLY DID NOT ENJOY THEM, AND THEREBY ALLEVIATING AN UNCHECKED FLOW OF FORMER SUBSISTENCE FARMERS TO THE SLUMS OF PANAMA'S CITIES IN SEARCH OF A BETTER LIFE. THESE SETTLEMENTS HAVE BEEN ENCOURAGED TO BEGIN RICE CULTIVATION--RICE IS A STAPLE PART OF THE PANAMANIAN DIET, AND A COMMODITY OF WHICH PANAMA WAS, UNTIL 1972 A TRADITIONAL NET IMPORTER. AS A CONSEQUENCE OF INCREASED NUMBERS OF PRODUCERS, LIMITED OFFICIAL USE

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PAGE 02 PANAMA 00885 03 OF 03 061653Z

AND A SERIES OF GOOD CROP YEARS, RICE IS CURRENTLY IN EXCESS SUPPLY IN PANAMA. THIS SITUATION IS, NATURALLY, NOT ESPECIALLY FAVORABLE TO COMMERCIAL PRODUCERS.

IN SUMMARY, THE EMBASSY THUS FAR PERCEIVES NO COHERENT PANAMANIAN POLICY OF SEEKING TO ELIMINATE THE PRIVATE SECTOR FROM AGRICULTURAL PRODUCTION OR DISTRIBUTION. RATHER, THE GOVERNMENT HAS TAKEN A SERIES OF MEASURES TO ATTEMPT TO SOLVE LIMITED, SPECIFIC PROBLEMS, OR PROBLEMS IN FIELDS OTHER THAN PURELY AGRICULTURAL ECONOMICS. THESE MEASURES HAVE HAD UNFORESEEN EFFECTS. WHILE THE EMBASSY CANNOT PREDICT WHAT THE GOVERNMENT WILL DO ABOUT THESE EFFECTS, WE DO NOT BELIEVE THAT IT WILL PROCEED ON A BASIS OF CONSCIOUS PURSUIT OF A TOTALLY GOVERNMENT-CONTROLLED AGRICULTURAL SECTOR.

7. Q. WE UNDERSTAND THAT PANAMA HAS BEEN ACTIVELY SEEKING EXPANDED INTERNATIONAL TRADE WITH COMMUNIST COUNTRIES. IS THIS TRUE, AND IF SO, WHAT DOES IT MEAN FOR THE UNITED STATES?

A. IT IS TRUE. AS A MATTER OF BOTH POLITICAL AND ECONOMIC POLICY, PANAMA HAS ACTIVELY SOUGHT TO EXPAND ITS INTERNATIONAL TRADE WITH A NUMBER OF NONTRADITIONAL PARTNERS, INCLUDING BOTH COMMUNIST COUNTRIES AND OTHERS. SHE HAS SOLD AGRICULTURAL PRODUCTS TO ALGERIA, YUGOSLAVIA AND THE PEOPLE'S REPUBLIC OF CHINA, AND ALSO TO WESTERN COUNTRIES SUCH AS AUSTRALIA AND

THE FEDERAL REPUBLIC OF GERMANY. WE EXPECT THAT SHE WILL  
CONTINUE TO DO THIS. IN PART, THIS IS AN EFFORT TO DIVERSIFY  
THE COUNTRY'S AVAILABLE MARKETS, AND THUS LESSEN ITS  
ALMOST EXCLUSIVE ECONOMIC DEPENDENCE ON THE UNITED STATES.

IN PART, THIS ALSO REFLECTS PANAMA'S POLITICAL GOAL OF  
ASSUMING, AND DEMONSTRATING, ITS STATUS AS AN INDEPENDENT  
COUNTRY RATHER THAN STANDING, AS IT HAS IN THE PAST, IN  
THE SHADOW OF THE UNITED STATES. PANAMA IS ALSO SEEKING  
TO DIVERSIFY ITS FOREIGN IMPORTS, WHICH IN THE PAST, EXCEPT  
FOR PETROLEUM PRODUCTS, HAVE COME LARGELY FROM THE UNITED  
STATES. THE US RETAINS, HOWEVER, A MAJOR SHARE OF THE MARKET  
FOR MANUFACTURED GOODS IN PANAMA, THIS MARKET HAS DEMONSTRATED  
A CONTINUING PREFERENCE FOR AMERICAN-MADE PRODUCTS, AND WE ARE  
SEEKING TO MAINTAIN AND REINFORCE THAT PREFERENCE, AND OUR  
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PAGE 03 PANAMA 00885 03 OF 03 061653Z

SHARE OF THE PANAMANIAN IMPORT MARKET, THROUGH AN ACTIVE US  
GOVERNMENT COMMERCIAL PROGRAM CARRIED OUT BY OUR EMBASSY IN  
THE REPUBLIC.  
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## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** US CONGRESSIONAL PRESENTATIONS, ECONOMIC CONTROLS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 06 FEB 1976  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** blochd0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976PANAMA00885  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D760046-0379  
**From:** PANAMA  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t19760274/aaaacnbh.tel  
**Line Count:** 410  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION ARA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** LIMDIS, STADIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** LIMDIS  
**Page Count:** 8  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** LIMDIS; LIMDIS, STADIS  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** blochd0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 21 JUL 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <21 JUL 2004 by MartinML>; APPROVED <28 OCT 2004 by blochd0>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** CONGRESSIONAL Q&A'S ON PANAMA: V GOVERNMENT CONTROL OF THE ECONOMY  
**TAGS:** PFOR, EGEN, PN  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006